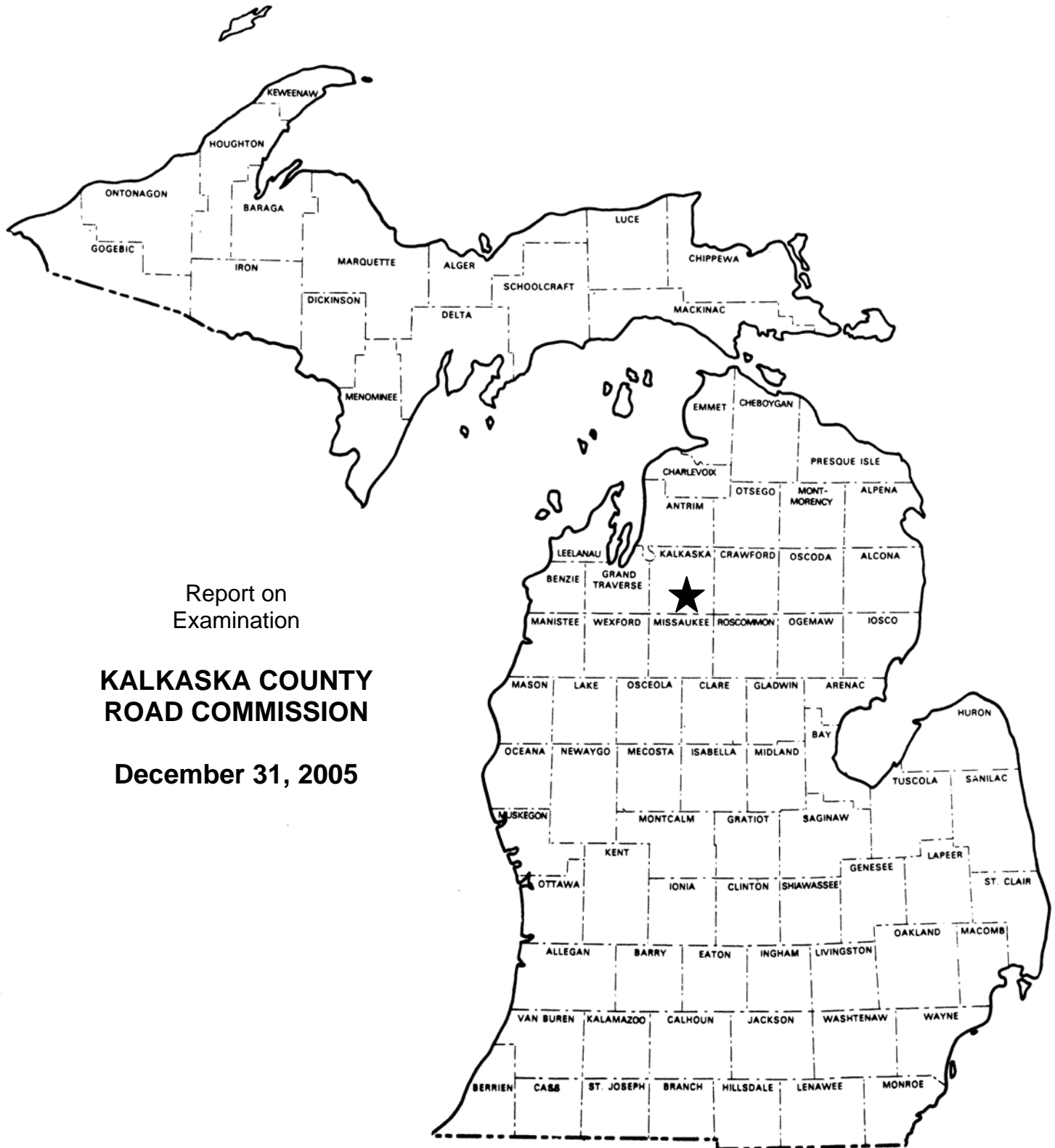


STATE OF MICHIGAN
JENNIFER M. GRANHOLM, Governor
DEPARTMENT OF TREASURY



KALKASKA COUNTY ROAD COMMISSION
BOARD OF COUNTY ROAD COMMISSIONERS

George Nice
Chairperson

Russ Naasko
Vice Chairperson

Robert Crambell
Member

John Rogers
Manager

Lori Harbour
Clerk

COUNTY POPULATION--2000
16,571

STATE EQUALIZED VALUATION--2005
\$957,724,838



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

November 2, 2006

Kalkaska County Road Commission
Board of County Road Commissioners
1049 Island Lake Road
Kalkaska, Michigan 49646

Independent Auditor's Report

Dear Commissioners:

We have audited the accompanying basic financial statements of the Kalkaska County Road Commission, a component unit of Kalkaska County, Michigan, as of and for the year ended December 31, 2005, as listed in the Table of Contents. These financial statements are the responsibility of the Road Commission's management. Our responsibility is to express an opinion on these basic financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinion.

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of the Kalkaska County Road Commission as of December 31, 2005, and the results of its operations for the year then ended in conformity with accounting principles generally accepted in the United States of America.

In accordance with Government Auditing Standards, we have also issued our report dated November 2, 2006 on our consideration of the Kalkaska County Road Commission's internal control over financial reporting and our test on its compliance with certain provisions of laws, regulations, contracts and grant agreements, and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance

with Government Auditing Standards and should be considered in assessing the results of our audit.

The Management's Discussion and Analysis on pages 1 through 7 and the budgetary comparison information included in Exhibits G and H are not part of the basic financial statements, but are supplementary information required by the Governmental Accounting Standards Board and accounting principles generally accepted in the United States of America. We have applied certain limited procedures, which consisted principally of inquiries of management regarding the methods of measurement and presentation of the required supplementary information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming an opinion on the financial statements of Kalkaska County Road Commission's basic financial statements. The accompanying supplementary and related information presented as Exhibits I through K has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated, in all material respects, in relation to the basic financial statements, taken as a whole.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

KALKASKA COUNTY ROAD COMMISSION

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KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Our discussion and analysis of Kalkaska County Road Commission's financial performance provides an overview of the Road Commission's financial activities for the calendar year ended December 31, 2005. This annual report consists of a series of financial statements. The Statement of Net Assets and the Statement of Activities provide information about the activities of the Road Commission and present a longer-term view of the Road Commission's finances. Fund financial statements tell how these services were financed in the short-term, as well as what remains for future spending. Fund financial statements also report the Road Commission's operations in more detail than the government-wide financial statements.

Overview of the Financial Statements

This annual report consists of four parts--Management's Discussion and Analysis (this section), the basic financial statements, required supplementary information, and an additional section that presents the operating fund broken down between primary, local and county funds. The basic financial statements include two types of statements that present different views of the Road Commission:

- The first two statements are government-wide financial statements that provide both long-term and short-term information about the Road Commission's overall financial status. These statements report information about the Road Commission, as a whole, using accounting methods similar to those used by private-sector companies. The Statement of Net Assets includes all of the government's assets and liabilities. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid. The two government-wide statements report the Road Commission's net assets and how they have changed. "Net assets" is the difference between the assets and liabilities--this is one way to measure the Road Commission's financial health or position.
- The remaining statements are fund financial statements that focus on the General Fund, reporting the operations in more detail than the government-wide statements.

Reporting the Road Commission as a Whole

Government-Wide Statements

The Statement of Net Assets and the Statement of Activities report information about the Road Commission, as a whole, and about its activities in a way that helps answer the question of whether the Road Commission, as a whole, is better off or worse off as a result of the year's activities. The Statement of Net Assets includes all of the Road Commission's assets and liabilities using the accrual basis of accounting, which is similar to the accounting method used by most private-sector companies. All of the current year's revenues and expenses are accounted for in the Statement of Activities regardless of when cash is received or paid.

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The two statements, mentioned above, report the Road Commission's net assets and how they have changed. The reader can think of the Road Commission's net assets (the difference between assets and liabilities) as one way to measure the Road Commission's financial health or financial position. Over time, increases or decreases in the Road Commission's net assets are one indicator of whether its financial health is improving or deteriorating, respectively. To assess the overall health of the Road Commission you need to consider additional nonfinancial factors such as changes in the county's property tax base, the condition of the Road Commission's roads, and changes in the law related to the gas taxes and its distribution.

Fund Financial Statements

The Road Commission has only one fund, the General Operations Fund. All of the Road Commission's activities are accounted for in this fund. The General Operations Fund is a governmental fund type. Our analysis of the Road Commission's Major Fund begins on page 4 and provides detailed information about the Major Fund.

The Governmental Fund focuses on how money flows into and out of this fund and the balances left at year end that are available for spending. This fund is reported using an accounting method called modified accrual accounting, which measures cash and all other financial assets that can readily be converted to cash. The Governmental Fund statements provide a detailed short-term view of the Road Commission's general governmental operations and the basic service it provides. Governmental fund information helps the reader to determine whether there are more or fewer financial resources that can be spent in the near future to finance the Road Commission's services. We describe the relationship (or difference) between governmental activities (reported in the Statement of Net Assets and the Statement of Activities) and the Governmental Fund in a reconciliation following the fund financial statements.

Financial Analysis of the Road Commission as a Whole

The Road Commission's net assets decreased approximately 6.49% from \$13,311,242 to \$12,447,640 for the year ended December 31, 2005. The net assets and change in net assets are summarized below.

Net Assets

Restricted net assets are those net assets that have constraints placed on them by either: a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or b) imposed by law through constitutional provisions or enabling legislation. Enabling legislation authorizes the government to assess, levy, charge or otherwise mandate payment of resources and includes a legally enforceable requirement that those resources be used only for the specific purpose stipulated in the legislation. As such all assets (except for assets invested in capital assets-net of related debt) are considered restricted.

The depreciation for the current year's infrastructure assets will be depreciated in the subsequent year.

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Net assets as of year ended December 31, 2005 follows:

	<u>2004</u>	<u>2005</u>	<u>Difference</u>	<u>Percent</u>
Current and Other Assets	\$ 1,199,832	\$ 968,235	\$ (231,597)	-19.30%
Capital Assets	<u>13,307,985</u>	<u>12,640,269</u>	<u>(667,716)</u>	<u>-5.02%</u>
Total Assets	<u>14,507,817</u>	<u>13,608,504</u>	<u>(899,313)</u>	<u>-6.20%</u>
Current and Other Liabilities	516,941	440,499	(76,442)	-15%
Long-Term Liabilities	<u>679,634</u>	<u>720,365</u>	<u>40,731</u>	<u>5.99%</u>
Total Liabilities	<u>1,196,575</u>	<u>1,160,864</u>	<u>(35,711)</u>	<u>-2.98%</u>
Net Assets				
Invested in Capital Assets				
Net of Related Debt	12,553,115	12,033,304	(519,811)	-4.14%
Restricted	<u>758,127</u>	<u>414,336</u>	<u>(343,791)</u>	<u>-45.35%</u>
Total Net Assets	<u>\$ 13,311,242</u>	<u>\$ 12,447,640</u>	<u>\$ (863,602)</u>	<u>-6.49%</u>

The restricted net assets decreased by \$343,791 during 2005. The primary reason for the decrease was a net increase in maintenance expenses, which exceeded the increase in MTF. The net assets invested in capital assets-net of related debt decreased by \$519,811 due to an increase in depreciation on the assets.

KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

Changes in Net Assets

A summary of changes in net assets for the year ended December 31, 2005 follows:

<u>Governmental Activities</u>	<u>2004</u>	<u>2005</u>	<u>Difference</u>	<u>Percentage</u>
Program Revenue				
Licenses and Permits	\$ 26,703	\$ 26,750	\$ 47	0.18%
State Grants	3,455,630	3,334,965	(120,665)	-3.49%
Contributions From Local Units	188,470	263,938	75,468	40.04%
Charges for Services	4,218	1,189	(3,029)	-71.81%
Investment Earnings	10,873	3,774	(7,099)	-65.29%
Contributions From Private Sources		36,322	36,322	100.00%
General Revenue				
Gain on Equipment Disposal	65,415	4,165	(61,250)	-93.63%
Total Revenues	<u>3,751,309</u>	<u>3,671,103</u>	<u>(80,206)</u>	<u>-2.14%</u>
Expenses				
Primary Road Maintenance	1,298,358	1,621,455	(323,097)	-24.89%
Local Road Maintenance	1,552,527	1,499,706	52,821	3.40%
Net Equipment Expense	(74,303)	158,218	(232,521)	312.94%
Net Administrative Expense	321,875	332,718	(10,843)	-3.37%
Infrastructure Depreciation Expense	688,464	893,035	(204,571)	-29.71%
Compensated Absences	14,106	7,153	6,953	49.29%
Interest Expense	14,119	22,420	(8,301)	-58.79%
Total Program Expenses	<u>3,815,146</u>	<u>4,534,705</u>	<u>(719,559)</u>	<u>-18.86%</u>
Increase in Net Assets	<u>(63,837)</u>	<u>(863,602)</u>	<u>(799,765)</u>	<u>1252.82%</u>
Ending Net Assets	<u>\$ 13,311,242</u>	<u>\$ 12,447,640</u>	<u>\$ (863,602)</u>	<u>-6.49%</u>

The Road Commission's Fund

The Road Commission's General Operations Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for road and highway purposes. For the year ended December 31, 2005, the fund balance of the General Operations Fund decreased \$336,638 as compared to a decrease of \$90,355 in the fund balance for the year ended December 31, 2004. Total revenues were \$3,671,103, a decrease of \$80,205 as compared to last year. This change in revenues resulted primarily from a decrease of MTF of \$120,664. Total expenditures were \$4,033,436, a decrease of \$491,737 as compared to last year. This change in expenditures is due primarily to a decrease in capital outlay after the purchase of five new trucks last year.

KALKASKA COUNTY ROAD COMMISSION

MANAGEMENT'S DISCUSSION AND ANALYSIS

A summary of changes in the Operating Fund is as follows:

	12/31/04 Operating Fund	12/31/05 Operating Fund	Favorable (Unfavorable) Variance	Variance %
Revenues				
Licenses and Permits	\$ 26,703	\$ 26,750	\$ 47	0.18%
State Aid	3,455,629	3,334,965	(120,664)	-3.49%
Contributions From Local Units	188,470	263,938	75,468	40.04%
Charges for Services	4,218	1,189	(3,029)	-71.81%
Interest and Rents	10,873	3,774	(7,099)	-65.29%
Other Revenue	65,415	40,487	(24,928)	-38.11%
Total Revenues	<u>3,751,308</u>	<u>3,671,103</u>	<u>(80,205)</u>	<u>-2.14%</u>
Expenditures				
Public Works	3,806,146	4,235,868	(429,722)	-11.29%
Net Capital Outlay	569,514	(398,452)	967,966	169.96%
Debt Service	149,513	196,020	(46,507)	-31.11%
Total Expenditures	<u>4,525,173</u>	<u>4,033,436</u>	<u>491,737</u>	<u>10.87%</u>
Excess of Revenues Over (Under) Expenditures	<u>(773,865)</u>	<u>(362,333)</u>	<u>411,532</u>	<u>-53.18%</u>
Other Financing Sources				
Installment Purchase Proceeds	<u>683,510</u>	<u>25,695</u>	<u>(657,815)</u>	<u>-0.96240728</u>
Total Other Financing Sources	<u>683,510</u>	<u>25,695</u>	<u>(657,815)</u>	<u>-0.96240728</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>(90,355)</u>	<u>(336,638)</u>	<u>(246,283)</u>	<u>272.57%</u>
Fund Balance--Beginning of Year	<u>954,729</u>	<u>864,374</u>	<u>(90,355)</u>	<u>-9.46%</u>
Fund Balance--End of Year	<u>\$ 864,374</u>	<u>\$ 527,736</u>	<u>\$ (336,638)</u>	<u>-38.95%</u>

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

Budgetary Highlights

Prior to the beginning of any year, the Road Commission's budget is compiled based upon certain assumptions and facts available at that time. During the year, the Road Commission Board acts to amend its budget to reflect changes in these original assumptions, facts and/or economic conditions that were unknown at the time the original budget was compiled. In addition, by policy, the board reviews and authorizes large expenditures when requested throughout the year.

The final amended revenue budget for 2005 was \$45,960 higher than the original budget due to the Road Commission receiving more township and private contributions and installment purchase agreement proceeds. The actual revenue recognized during 2005 was \$72,175 more than the final amended budget.

The final amended expenditure budget for 2005 was \$209,200 higher than the original budget primarily due to the Road Commission having higher maintenance expenditures, additional preservation/structural improvements and a decrease in road maintenance projects and an increase in capital outlay expenditures than originally planned. The actual expenditures recognized during 2005 were more than the final amended budget by \$249,236.

Capital Assets

As of December 31, 2005, the Road Commission had invested \$12,640,269 in capital assets. This amount represents a net decrease (including additions and deductions) of \$667,716 or 5.02% as follows:

	2004	2005	Total Percentage Change 2004-2005
Capital Assets Not Being Depreciated			
Land and Improvements	\$ 95,964	\$ 95,964	0.00%
Subtotal	95,964	95,964	0.00%
Capital Assets Being Depreciated			
Buildings	555,983	582,153	4.71%
Equipment	3,861,308	3,888,095	0.69%
Infrastructure--Roads and Bridges	18,859,635	19,483,406	100.00%
Subtotal	23,276,926	23,953,654	2.91%
Total Capital Assets	23,372,890	24,049,618	2.90%
Total Accumulated Depreciation	(10,064,905)	(11,409,349)	13.36%
Total Net Capital Assets	<u>\$ 13,307,985</u>	<u>\$ 12,640,269</u>	<u>-5.02%</u>

KALKASKA COUNTY ROAD COMMISSION
MANAGEMENT'S DISCUSSION AND ANALYSIS

The Road Commission reported the infrastructure and related assets during the current year in the amount of \$623,771. The infrastructure recorded during 2005 will be depreciated in the following year. The infrastructure is financed through State and local contributions.

This year's major capital asset additions included the following:

Buildings	\$ 26,170
Road Equipment	43,841
Infrastructure--Roads	<u>623,771</u>
Total Additions	<u><u>\$ 693,782</u></u>

There was one installment purchase agreement entered into during 2005 for \$25,695 for the Broce Broom; all other equipment was acquired with Road Commission funds.

During 2005, the Road Commission traded in and/or disposed of road equipment with a purchase amount of \$17,054, related depreciation of \$17,054, and net book value of \$0.

Economic Factors and Next Year's Budget

The board of county road commissioners considered many factors when setting the fiscal year 2006 budget. One of the factors is the economy. The Road Commission derived approximately 88% of its revenues from the Motor Transportation Fund collected in 2005. The Road Commission received approximately 9% of its revenues from township and other contributions during 2005. This amount fluctuates with the approved road projects and depends on what and how much the townships can afford to participate. We are not anticipating having any road projects approved or township contributions during 2006. During 2006, we expect to receive \$1,400,000 in Federal and State Aid for road projects and also increase our preservation and structural improvements by the same amount. The above items were considered when adopting the budget for 2006.

Contacting the Road Commission's Financial Management

The financial report is designed to provide the motoring public, citizens and other interested parties a general overview of the Road Commission's finances and to show accountability for the money it receives. If you have any questions about this report or need additional financial information, contact the Kalkaska County Road Commission, Administrative Office at 1049 Island Lake Road, Kalkaska, Michigan 49646, Phone Number (231) 258-2242.

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF NET ASSETS
December 31, 2005

EXHIBIT A

ASSETS

Bank Deposits	\$ 103,681
Accounts Receivable	
Michigan Transportation Fund	476,871
Due on County Road Agreements	26,200
Sundry Accounts	2,886
Inventories	
Road Materials	240,623
Equipment Parts and Materials	117,974
Capital Assets (Net of Accumulated Depreciation)	<u>12,640,269</u>
Total Assets	<u>13,608,504</u>

LIABILITIES

Current Liabilities	
Accounts Payable	189,664
Accrued Liabilities	31,603
Contractor Payable	219,232
Non Current Liabilities	
Installment Purchase Agreements Payable--Due Within One Year	174,673
Installment Purchase Agreements Payable--Due in More Than One Year	432,292
Vested Employee Benefits Payable	<u>113,400</u>
Total Liabilities	<u>1,160,864</u>

NET ASSETS

Investment in Capital Assets	
Net of Related Debt	12,033,304
Restricted for County Roads	<u>414,336</u>
Total Net Assets	<u><u>\$12,447,640</u></u>

The Notes to Financial Statements are an integral part of this statement.

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005

EXHIBIT B

Program Expenses	
Primary Road Maintenance	\$ 1,621,455
Local Road Maintenance	1,499,706
Net Equipment Expense	158,218
Net Administrative Expense	332,718
Infrastructure Depreciation	893,035
Compensated Absences	7,153
Interest Expense	22,420
	<hr/>
Total Program Expenses	4,534,705
	<hr/>
Program Revenue	
Charges for Services	
Licenses and Permits	26,750
Charges for Services	1,189
Operating Grants and Contributions	
Michigan Transportation Funds	3,252,303
Investment Earnings	3,774
Capital Grants and Contributions	
State Grants	82,662
Contributions From Local Units	263,938
Contributions From Private Sources	36,322
	<hr/>
Total Program Revenue	3,666,938
	<hr/>
Net Program Revenue	(867,767)
	<hr/>
General Revenue	
Gain on Equipment Disposal and Land Sales	4,165
	<hr/>
Total General Revenues	4,165
	<hr/>
Change in Net Assets	(863,602)
	<hr/>
Net Assets	
Beginning of Year	13,311,242
	<hr/>
End of Year	\$12,447,640
	<hr/>

The Notes to Financial Statements are an integral part of this statement.

KALKASKA COUNTY ROAD COMMISSION
BALANCE SHEET
December 31, 2005

EXHIBIT C

GOVERNMENTAL
FUND TYPE

General
Operating
Fund

ASSETS

Bank Deposits	\$ 103,681
Accounts Receivable	
Michigan Transportation Fund	476,871
Due From Retirees	2,886
Due From Township Agreements	26,200
Inventories	
Road Materials	240,623
Equipment Parts and Materials	117,974
Total Assets	<u>\$ 968,235</u>

LIABILITIES AND FUND EQUITY

Liabilities	
Accounts Payable	\$ 189,664
Due to State	
Accrued Liabilities	31,603
Contracts Payable	219,232
Total Liabilities	<u>440,499</u>
Fund Equities	
Reserved for Inventory	358,597
Fund Balance	
Unreserved and Undesignated	169,139
Total Fund Equities	<u>527,736</u>
Total Liabilities and Fund Equities	<u>\$ 968,235</u>

The Notes to Financial Statements are an integral part of this statement.

**KALKASKA COUNTY ROAD COMMISSION
RECONCILIATION OF THE BALANCE SHEET FUND
BALANCE TO THE STATEMENT OF NET ASSETS
For the Year Ended December 31, 2005**

EXHIBIT D

Total Governmental Fund Balance	\$ 527,736
---------------------------------	------------

Amounts reported for governmental activities in the Statement of Net Assets
are different because:

Capital assets used in governmental activities are not financial resources and, therefore, are not reported in the funds.	12,640,269
--	------------

Certain liabilities, such as compensated absences, are not due and payable in the current period and, therefore, are not reported in the funds.	<u>(720,365)</u>
--	------------------

Net Assets of Governmental Activities	<u><u>\$ 12,447,640</u></u>
---------------------------------------	-----------------------------

The Notes to Financial Statements are an integral part of this statement.

KALKASKA COUNTY ROAD COMMISSION
STATEMENT OF REVENUES, EXPENDITURES
AND CHANGES IN FUND BALANCE
For the Year Ended December 31, 2005

EXHIBIT E

	<u>Operating Fund</u>
Revenues	
Licenses and Permits	\$ 26,750
State Aid	3,334,965
Contributions From Local Units	263,938
Charges for Services	1,189
Interest and Rents	3,774
Other Revenue	<u>40,487</u>
Total Revenues	<u>3,671,103</u>
Expenditures	
Public Works	3,767,405
Capital Outlay	70,011
Debt Service	<u>196,020</u>
Total Expenditures	<u>4,033,436</u>
Excess of Revenues Over (Under) Expenditures	<u>(362,333)</u>
Other Financing Sources	
Installment Purchase Proceeds	<u>25,695</u>
Total Other Financing Sources	<u>25,695</u>
Excess of Revenues and Other Financing Sources Over Expenditures	<u>(336,638)</u>
Fund Balance--January 1, 2005	<u>864,374</u>
Fund Balance--December 31, 2005	<u><u>\$ 527,736</u></u>

The Notes to Financial Statements are an integral part of this statement.

**KALKASKA COUNTY ROAD COMMISSION
RECONCILIATION OF THE STATEMENT OF REVENUES,
EXPENDITURES AND CHANGES IN FUND BALANCE OF
GOVERNMENTAL FUNDS TO THE STATEMENT OF ACTIVITIES
For the Year Ended December 31, 2005**

EXHIBIT F

Net Change in Fund Balance--Total Governmental Funds \$ (336,638)

Amounts reported for governmental activities in the statement are different because:

Governmental funds report capital outlays as expenditures.
However, in the Statement of Activities, the cost of those assets is allocated
over their estimated useful lives as depreciation expense. This is the amount
by which capital outlays exceeded depreciation in the current period. (667,716)
Equipment retirement is recorded as an expenditure credit in governmental
funds, but not recorded as an expense in the Statement of Activities.

Lease proceeds provide current financial resources to governmental funds,
but entering into lease agreements increases long-term liabilities in the 147,905
Statement of Net Assets. Repayment of notes/leases payable is an
expenditure in governmental funds, but reduces the long-term liabilities in the
Statement of Net Assets.

Some expenses reported in the Statement of Activities do not require the use
of current financial resources and, therefore, are not reported as expenditures
in governmental funds. (Increase in compensated absences and decrease in
interest expense) (7,153)

Change in Net Assets of Governmental Activities \$ (863,602)

The Notes to Financial Statements are an integral part of this statement.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE A--REPORTING ENTITY

The Kalkaska County Road Commission, which is established pursuant to the County Road Law (MCL 224.1), is governed by an elected 3 member board of county road commissioners. The Road Commission may not issue debt or levy a tax without the approval of the county board of commissioners.

The criteria established by the Governmental Accounting Standards Board (GASB) Statement No. 14, "The Financial Reporting Entity," for determining the reporting entity includes oversight responsibility, fiscal dependency and whether the financial statements would be misleading if the component unit data were not included. Based on the above criteria, these financial statements present the Kalkaska County Road Commission, a discretely presented component unit of Kalkaska County, and include the Road Commission Operating Fund.

The Road Commission Operating Fund is used to control the expenditures of Michigan Transportation Fund monies distributed to the county, which are earmarked by law for street and highway purposes. The board of county road commissioners is responsible for the administration of the Road Commission Operating Fund.

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

Basis of Presentation--Government-Wide Financial Statements

The government-wide financial statements (i.e., the Statement of Net Assets and the Statement of Activities) report information on all of the activities of the Kalkaska County Road Commission. There is only one fund reported in the government-wide financial statements.

The Statement of Net Assets presents the Road Commission's assets and liabilities with the difference being reported as either invested in capital assets-net of related debt or restricted net assets.

The Statement of Activities demonstrates the degree to which the direct expenses of a given function or segment is offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use or directly benefit from goods, services or privileges provided by a given function or segment; and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Basis of Presentation--Fund Financial Statements

Separate financial statements are provided for the operating fund (governmental fund). The operating fund is an independent fiscal and accounting entity with a self-balancing set of accounts. Fund accounting segregates funds according to their intended purpose and is used to aid management in demonstrating compliance with finance-related legal and contractual provisions.

Measurement Focus/Basis of Accounting--Government-Wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Amounts reported as program revenue include: (1) charges to customer or applicants for goods or services or privileges provided; (2) Michigan transportation funds, State/Federal contracts and township contributions. Internally dedicated resources are reported as general revenue rather than as program revenue. Likewise, general revenue includes all taxes.

When both restricted and unrestricted resources are available for use, it is the Road Commission's policy to use restricted resources first, then unrestricted resources as they are needed.

Measurement Focus/Basis of Accounting--Fund Financial Statements

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the government considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, as well as expenditures related to compensated absences and claims and judgments, are recorded only when payment is due.

Michigan transportation funds, grants, permits, township contributions and interest associated with the current fiscal period are all considered to be susceptible to accrual and have been recognized as revenue of the current fiscal period. All other revenue items are considered to be available only when cash is received by the government.

Bank Deposits and Investments

Cash and cash equivalents are considered to be cash on hand, demand deposits and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE B--SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES (Continued)

Inventories and Prepaid Items

Inventories are priced at cost as determined on the average cost method. Inventory items are charged to road construction and equipment maintenance, and repairs and operations as used. Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

Capital Assets

Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges and similar items) are reported in the Operating Fund in the government-wide financial statements. Capital assets are defined by Kalkaska County Road Commission as assets with an initial individual cost of more than \$300 and an estimated useful life in excess of two years. Such assets are recorded at historical cost or estimated historical cost of purchase or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Depreciation

Depreciation is computed on the sum-of-the-years'-digits method for road equipment and straight-line method for all other capital assets. The depreciation rates are designed to amortize the cost of the assets over their estimated useful lives as follows:

Buildings	30 to 50 years
Road Equipment	5 to 8 years
Shop Equipment	10 years
Engineering Equipment	4 to 10 years
Office Equipment	4 to 10 years
Infrastructure--Roads	8 to 30 years
Infrastructure--Bridges	12 to 50 years

Long-Term Obligations

In the government-wide financial statements, long-term debt and other long term obligations are reported as liabilities in the Operating Fund Statement of Net Assets.

Use of Estimates

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities, the disclosure of contingent assets and liabilities at the date of the financial statements, and the reported amounts of revenues and expenditures during the reporting period. Actual results could differ from those estimates.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE C--BUDGETARY PROCEDURES

Budgetary procedures are established pursuant to Public Act 2 of 1968, as amended, (MCL 141.421) which requires the board of county road commissioners to approve a budget for the County Road Fund. Pursuant to the Act, the Road Commission's chief administrative officer (manager) prepares and submits a proposed operating budget to the board of road commissioners for its review and consideration. The board did not conduct a public budget hearing prior to the adoption of an operating budget. The budget is amended as necessary during the year, and is approved by the board.

Budget Violations

Public Act 2 of 1968, Section 19(1), as amended, provides that a local governmental unit shall not incur expenditures in excess of the amount appropriated. The following activities exceeded the amended budget:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Maintenance	\$ 1,200,000	\$ 1,621,455	\$ (421,455)
Local Road Maintenance	1,400,000	1,499,706	(99,706)
Net Equipment Expense	(84,000)	158,218	(242,218)
Principal	165,000	173,600	(8,600)

NOTE D--CASH AND INTEREST-BEARING DEPOSITS

MCL 129.91, authorizes the county to deposit and invest in the accounts of Federally insured banks, credit unions, savings and loan associations; bonds, securities and other direct obligations of the United States, or any agency or instrumentality of the United States; United States government or Federal agency obligation repurchase agreements, bankers' acceptance of United States banks; commercial paper rated within the two highest classifications, which mature not more than 270 days after the date of purchase, obligations of the State of Michigan or its political subdivisions which are rated as investment grade; and mutual funds composed of investment vehicles which are legal for direct investment by local units of government in Michigan. Financial institutions eligible for deposit of public funds must maintain an office in Michigan.

The Road Commission has designated one bank for the deposit of Road Commission funds. The investment policy adopted by the board in accordance with Public Act 20 of 1943, as amended, has authorized investment in the instruments described in the preceding paragraph. The Road Commission's deposits and investment policy are in accordance with statutory authority.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INTEREST-BEARING DEPOSITS (Continued)

At year end, the Road Commission's deposits and investments were reported in the basic financial statements in the following categories:

Bank Deposits (Checking and Savings Accounts, Certificates of Deposit)	\$ 103,431
Petty Cash and Cash on Hand	<u>250</u>
Total	<u><u>\$ 103,681</u></u>

The bank balance of the primary government's deposits is \$288,014, of which \$100,000 is covered by Federal depository insurance.

Investments Authorized by the Road Commission's Investment Policy

The Road Commission's investment policy only authorizes investment in all those that are authorized by law. The Road Commission has limited their investments to money markets.

Disclosures Relating to Interest Rate Risk

Interest rate risk is the risk that change in market interest rates will adversely affect the fair value of an investment. Generally, the longer the maturity of an investment, the greater the sensitivity of its fair value to changes in market interest rates. One of the ways that the Road Commission manages its exposure to interest rate risk is by participating in mutual funds which hold diverse investments that are authorized by law for direct investment.

Concentration of Credit Risk

Generally, credit risk is the risk that an issuer of an investment will not fulfill its obligation to the holder of the investment. This is measured by the assignment of a rating by a nationally recognized statistical rating organization. The mutual funds and pension trust funds do not have a rating provided by a nationally recognized statistical rating organization.

The investment policy of the Road Commission contains no limitations on the amount that can be invested in any one issuer beyond that stipulated by Michigan law.

Custodial Credit Risk

Custodial credit risk for deposits is the risk that, in the event of the failure of a depository financial institution, a government will not be able to recover its deposits or will not be able to recover collateral securities that are in the possession of an outside party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for deposits.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE D--CASH AND INTEREST-BEARING DEPOSITS (Continued)

The custodial credit risk for investments is the risk that, in the event of the failure of the counterparty to a transaction (e.g., broker-dealer), a government will not be able to recover the value of its investment or collateral securities that are in the possession of another party. Michigan law and the Road Commission's investment policy do not contain legal or policy requirements that would limit the exposure to custodial credit risk for investments. With respect to investments, custodial credit risk generally applies only to direct investments in marketable securities. Custodial credit risk does not apply to a local government's indirect investment in securities through the use of mutual funds or government investment pools.

NOTE E--CAPITAL ASSETS

Following is a summary of the changes in the capital assets:

	Account Balances 01/31/05	Additions	Deductions	Account Balances 12/31/05
Capital Assets Not Being Depreciated				
Land and Improvements	\$ 95,964			\$ 95,964
Subtotal	95,964	\$ -	\$ -	95,964
Capital Assets Being Depreciated				
Buildings	555,983	26,170		582,153
Road Equipment	3,751,334	43,841	17,054	3,778,121
Shop Equipment	34,523			34,523
Office Equipment	75,451			75,451
Infrastructure--Bridges	1,122,538			1,122,538
Infrastructure--Roads	17,737,097	623,771		18,360,868
Total	23,276,926	693,782	17,054	23,953,654
Less Accumulated Depreciation				
Land Improvements	48,510	3,479		51,989
Buildings	422,905	18,402		441,307
Road Equipment	2,439,842	441,750	17,054	2,864,538
Shop Equipment	34,523			34,523
Office Equipment	67,473	4,832		72,305
Infrastructure--Bridges	287,674	31,020		318,694
Infrastructure--Roads	6,763,978	862,015		7,625,993
Total	10,064,905	1,361,498	17,054	11,409,349
Net Capital Assets Being Depreciated	13,212,021	693,782	1,361,498	12,544,305
Total Net Capital Assets	\$ 13,307,985	\$ 693,782	\$ 1,361,498	\$ 12,640,269

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE E--CAPITAL ASSETS (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Net Equipment Expense	
Direct Equipment	\$ 441,750
Indirect Equipment	21,881
Net Administrative Expenses	
Office Equipment	4,832
Infrastructure Depreciation Expense	<u>893,035</u>
Total Depreciation Expense	<u>\$ 1,361,498</u>

NOTE F--LONG-TERM DEBT

The changes in long-term debt of the Road Commission may be summarized as follows:

	<u>Balance</u> <u>01/01/05</u>	<u>Additions</u> <u>(Reductions)</u>	<u>Balance</u> <u>12/31/05</u>	<u>Due Within</u> <u>One Year</u>
Installment Purchase Agreement for two Komatsu Motor Graders paid in quarterly installments of \$13,478 at a rate of 4.75%.	\$ 13,292	\$ (13,292)		-
Installment Purchase Agreement for a four wheel drive loader paid in quarterly installments of \$7,711 at a rate of 3.9%.	100,406	(27,323)	\$ 73,083	\$ 28,404
Installment Purchase Agreement for five trucks paid in monthly installments of \$12,295 at a rate of 3.0%.	641,172	(129,851)	511,321	133,856
Installment Purchase Agreement for a Broce Broom paid in monthly installments of \$1,186 at a rate of 10%.		25,695 (3,134)	22,561	12,413
Vested Employee Benefits				
Sick Leave Benefits	<u>106,247</u>	<u>7,153</u>	<u>113,400</u>	
Totals	<u>\$ 861,117</u>	<u>\$ (140,752)</u>	<u>\$ 720,365</u>	<u>\$ 174,673</u>

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

The annual interest and principal requirements of the Road Commission's long-term borrowing may be summarized as follows:

A four wheel drive loader was purchased in July 2003 under an installment purchase agreement through John Deere. The original purchase price was \$140,813, with quarterly payments of \$7,711 at an implied interest rate of 3.9%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/05</u>	<u>Interest Payable if Held to Maturity</u>
07/20/03	\$140,813	3.90%	2006	\$ 28,404	\$ 2,438
			2007	29,528	1,314
			2008	15,151	222
				<u>\$ 73,083</u>	<u>\$ 3,974</u>
Total					

Five trucks were purchased in July 2004 under an installment purchase agreement through Northwestern Bank. The original purchase price was \$633,510, with monthly payments of \$12,295 at an implied interest rate of 3.0%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/05</u>	<u>Interest Payable if Held to Maturity</u>
07/29/04	\$683,510	3.90%	2006	\$133,856	\$ 13,687
			2007	137,985	9,559
			2008	142,223	5,322
			2009	97,257	1,105
Total				<u>\$511,321</u>	<u>\$ 29,673</u>

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE F--LONG-TERM DEBT (Continued)

A Broce Broom was purchased in November 2005 under an installment purchase agreement through Komatsu Financial. The original purchase price was \$25,695, with monthly payments of \$1,186 at an implied interest rate of 10.0%.

<u>Loan Date</u>	<u>Loan Amount</u>	<u>Interest Rate</u>	<u>Maturity Year</u>	<u>Outstanding 12/31/05</u>	<u>Interest Payable if Held to Maturity</u>
11/14/05	\$25,695	10.00%	2006	\$ 12,413	\$ 1,816
			2007	<u>10,148</u>	<u>526</u>
Total				<u>\$ 22,561</u>	<u>\$ 2,342</u>

Sick Leave Benefit Policy

Road Commission sick leave benefit policies provide that each employee, after six months of service, earns eight hours of sick leave for each month of employment. When an employee dies or terminates his/her employment on a voluntary basis, the employee or the employee's estate, as the case may be, will receive pay for 100% of an employee's accumulated sick leave up to the maximum accumulation of 640 hours.

Vacation Benefit Policies

Road Commission employment policies provide for vacation benefits to be earned in varying amounts depending on the employee's years of service. Employees are required to use all vacation leave in the same calendar year in which it is earned.

NOTE G--DEFERRED COMPENSATION PLAN

The Kalkaska County Board of Road Commissioners offers all Road Commission employees deferred compensation plans created in accordance with the Internal Revenue Code, Section 457 with Comprehensive Financial Services, Inc. The assets of the plans were held in a trust, custodial account or annuity contract described in IRC Section 457(g) for the exclusive benefit of the participants (employees) and their beneficiaries. The custodial account is held by the custodian thereof for the exclusive benefit of the participants and beneficiaries of this Section 457 plan and the assets may not be diverted to any other use. The administrators are agents of the employer for purposes of providing direction to the custodian of the custodial account from time to time to the investment of the funds held in the account, transfer of assets to or from the account and all other matters. In accordance with the provisions of GASB Statement No. 32 requirements, plan balances and activities are not reflected in the Road Commission's financial statements.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM

Description of Plan and Plan Assets

The Kalkaska County Road Commission is in an agent multiple-employer defined benefit pension plan with the Municipal Employees' Retirement System (MERS). The system provides the following provisions: normal retirement, deferred retirement, service retirement allowance, disability retirement allowance, nonduty-connected death and post-retirement adjustments to plan members and their beneficiaries. The service requirement is computed using credited service at the time of termination of membership multiplied by the sum of 2.5% times the final average compensation (FAC). The most recent period for which actuarial data was available was for the calendar year ended December 31, 2005.

MERS was organized pursuant to Section 12a of Public Act 156 of 1851, as amended, (MCL 46.12a). MERS is regulated under Public Act 427 of 1984, sections of which have been approved by the State Pension Commission. MERS issues a publicly available financial report that includes financial statements and required supplementary information for the system. That report may be obtained by writing to MERS at 1134 Municipal Way, Lansing, Michigan 48917.

Funding Policy

The Road Commission does not obligate the employees to contribute any portion of their salary to the plan. The Road Commission is required to contribute at an actuarially determined rate which was 26.59% of the annual payroll for the union, and 22.89% for administration based on the 2003 actuarial valuation beginning on January 1, 2005.

Annual Pension Cost

During the fiscal year ended December 31, 2005, the Road Commission's contributions totaling \$286,183 were made in accordance with contribution requirements determined by an actuarial valuation of the plan as of December 31, 2003. The employer contribution rate has been determined based on the entry age normal funding method. Under the entry age normal cost funding method, the total employer contribution is comprised of the normal cost plus the level annual percentage of payroll payment required amortizing the unfunded actuarial accrued liability over 30 years. The employer normal cost is, for each employee, the level percentage of payroll contribution (from entry age to retirement) required to accumulate sufficient assets at the member's retirement to pay for his or her projected benefit. Significant actuarial assumptions used include a long-term investment yield rate of 8% and annual salary increases of 5% based on an age-related scale to reflect merit, longevity, and promotional salary increases.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE H--EMPLOYEES' RETIREMENT SYSTEM (Continued)

Three Year Trend Information for GASB Statement No. 27

<u>Year Ended December 31</u>	<u>Annual Pension Cost (APC)</u>	<u>Percentage of APC Contributed</u>	<u>Net Pension Obligation</u>
2003	\$ 225,478	100%	\$0
2004	270,138	100%	\$0
2005	286,183	100%	\$0

Required Supplementary Information for GASB Statement No. 27

<u>Actuarial Valuation Date</u>	<u>Actuarial Value of Assets</u>	<u>Actuarial Accrued Liability (AAL)</u>	<u>Underfunded (Overfunded) AAL (UAAL)</u>	<u>Funded Ratio</u>	<u>Covered Payroll</u>	<u>UAAL as a Percent of Covered Payroll</u>
12/31/03	\$ 4,522,716	\$ 7,279,689	\$ 2,756,973	62%	\$ 1,028,950	268%
12/31/04	4,582,660	7,675,837	3,093,177	60%	1,125,839	275%
12/31/05	4,647,905	7,953,624	3,305,719	58%	1,045,685	316%

NOTE I--POST-EMPLOYMENT BENEFITS

In addition to the pension benefits described in Note H, the Kalkaska County Road Commission provides post-employment health care benefits to union employees who retire from the Road Commission on or after obtaining age 55 with 20 or more years of service, all other employees on or after attaining age 62 with 20 or more years of service, or those who retire under a valid disability claim regardless of age. The health care benefits consist of the Road Commission paying the monthly health insurance for a period of three years after retirement for union employees and dependents and until death for nonunion employees. The costs of retiree's health care benefits are recognized as expenditures as claims are paid. During 2005, 15 retirees were eligible for benefits, and \$119,500 was recognized for post-employment health insurance.

NOTE J--RISK MANAGEMENT

The Road Commission is exposed to various risks of loss related to property loss, torts, errors and omissions, employee injuries, as well as medical benefits provided to employees. The Road Commission is a member of the Michigan County Road Commission Self Insurance Pool (Pool) established pursuant to the laws of the State of Michigan which authorizes contracts between municipal corporations (interlocal agreements) to form group self-insurance pools, and to prescribe conditions for the performance of these contracts.

KALKASKA COUNTY ROAD COMMISSION

NOTES TO FINANCIAL STATEMENTS

NOTE J--RISK MANAGEMENT (Continued)

The Pool was established for the purpose of making a self-insurance pooling program available which includes, but is not limited to, general liability coverage, auto liability coverage, property insurance coverage, stop loss insurance protections, claims administration and risk management, and loss control services pursuant to Michigan Public Act 138 of 1982.

The Road Commission pays an annual premium to the Pool for property (buildings and contents) coverage, automobile and equipment liability, trunkline liability, errors and omissions and bodily injury, property damage and personal injury liability. The agreement for the information of the Pool provides that the Pool will be self-sustaining through member premiums and will purchase both specific and aggregate stop-loss insurance to the limits determined necessary by the Pool Board.

The Road Commission also has self-insurance for workers' compensation as a member of the County Road Association Self-Insurance Fund.

At December 31, 2005, there were no claims that exceeded insurance coverage. The Road Commission did not have any significant reduction in insurance coverage from previous years. Settled claims for the Road Commission have not exceeded the amount of insurance coverage in any of the past 3 years.

KALKASKA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF REVENUES AND OTHER FINANCING SOURCES
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2005

EXHIBIT G

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Licenses and Permits				
Permits	\$ 28,000	\$ 27,000	\$ 26,750	\$ (250)
State Aid				
Michigan Transportation Fund				
Engineering	500	500	370	(130)
Primary Road	1,850,000	1,813,000	1,820,443	7,443
Local Road	1,200,000	1,178,000	1,186,906	8,906
Snow Removal	249,500	244,500	244,584	84
Economic Development Funds				
Forest Funds (E)	82,663	82,663	82,662	(1)
Contributions--Local Units				
Townships	165,000	203,000	263,938	60,938
Charges for Services				
Salvage Sales	1,000	1,275	1,135	(140)
Other Charges for Services		120	54	(66)
Interest and Rents				
Interest Earned	2,000	2,500	3,774	1,274
Other Revenue				
Gain on Equipment Disposal		4,165	4,165	-
Contributions From Private Sources		33,400	36,322	2,922
Total Operating Revenue	3,578,663	3,590,123	3,671,103	80,980
Other Financing Sources				
Installment Purchase Proceeds		34,500	25,695	(8,805)
Total Other Financing Sources	-	34,500	25,695	(8,805)
Total Revenue	3,578,663	3,624,623	<u>\$3,696,798</u>	<u>\$ 72,175</u>
Fund Balance--January 1, 2005	260,782	260,782		
Total Budget	<u>\$3,839,445</u>	<u>\$ 3,885,405</u>		

KALKASKA COUNTY ROAD COMMISSION
REQUIRED SUPPLEMENTARY INFORMATION
SCHEDULE OF EXPENDITURES--BUDGET AND ACTUAL
BUDGETARY COMPARISON SCHEDULE
For the Year Ended December 31, 2005

EXHIBIT H

	Original Budget	Final Amended Budget	Actual	Variance Favorable (Unfavorable)
Primary Road				
Preservation/Structural Improvements	\$ 110,000	\$ 420,000	\$ 308,094	\$ 111,906
Routine and Preventive Maintenance	1,300,000	1,200,000	1,621,455	(421,455)
Local Road				
Preservation/Structural Improvements	115,000	550,000	315,677	234,323
Routine and Preventive Maintenance	1,900,000	1,400,000	1,499,706	(99,706)
Equipment Expense--Net	(130,000)	(84,000)		
Direct			\$ 838,158	
Indirect			426,406	
Operating			240,830	
Less: Equipment Rentals			<u>(1,347,176)</u>	(242,218)
Administrative Expense--Net	360,000	335,000		
Administrative Expense			332,718	
Less: Purchase Discounts			<u>-</u>	2,282
Capital Outlay--Net	(270,000)	(226,800)		
Capital Outlay			70,011	
Less: Depreciation Credits			(468,463)	
Equipment Retirements			<u>-</u>	171,652
Debt Service				
Principal	170,000	165,000	173,600	(8,600)
Interest	20,000	25,000	22,420	2,580
Total Expenditures	3,575,000	3,784,200	<u>\$ 4,033,436</u>	<u>\$ (249,236)</u>
Fund Balance--December 31, 2005	264,445	101,205		
Total Budget	<u>\$3,839,445</u>	<u>\$3,885,405</u>		

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF CHANGES IN FUND BALANCES
For the Year Ended December 31, 2005

EXHIBIT I

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Total Revenues	\$2,111,674	\$1,524,084	\$ 35,345	\$3,671,103
Total Expenditures	2,164,852	2,058,675	(190,091)	4,033,436
Excess of Revenues Over (Under) Expenditures	(53,178)	(534,591)	225,436	(362,333)
Other Financing Sources (Uses)				
Installment Purchase Proceeds			25,695	25,695
Interfund Adjustment		488,837	(488,837)	-
Total Other Financing Sources (Uses)	-	488,837	(463,142)	25,695
Excess of Revenues Over (Under) Expenditures and Other Financing Sources and (Uses)	(53,178)	(45,754)	(237,706)	(336,638)
Fund Balance--January 1, 2005	76,375	45,754	742,245	864,374
Fund Balance--December 31, 2005	\$ 23,197	\$ -	\$ 504,539	\$ 527,736

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF REVENUES AND OTHER FINANCING SOURCES
For the Year Ended December 31, 2005

EXHIBIT J

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Licenses and Permits				
Permits			\$26,750	\$ 26,750
State Aid				
Michigan Transportation Fund				
Engineering	\$ 224	\$ 146		370
Primary Road	1,820,443			1,820,443
Local Road		1,186,906		1,186,906
Snow Removal	148,012	96,572		244,584
Economic Development Funds				
Forest Funds (E)	82,662			82,662
Contributions--Local Units				
Townships	60,000	203,938		263,938
Charges for Services				
Salvage Sales			1,135	1,135
Other Charges for Services			54	54
Interest and Rents				
Interest Earned	333	200	3,241	3,774
Other Revenue				
Gain on Equipment Disposal			4,165	4,165
Contributions From Private Sources		36,322		36,322
Total Operating Revenue	2,111,674	1,524,084	35,345	3,671,103
Other Financing Sources				
Installment Purchase Proceeds			25,695	25,695
Total Other Financing Sources	-	-	25,695	25,695
Total Revenue and Other Financing Sources	\$2,111,674	\$1,524,084	\$61,040	\$3,696,798

KALKASKA COUNTY ROAD COMMISSION
ANALYSIS OF EXPENDITURES
For the Year Ended December 31, 2005

EXHIBIT K

	Primary Road Fund	Local Road Fund	County Road Commission	Total
Primary Road				
Preservation/Structural Improvements	\$ 308,094			\$ 308,094
Routine and Preventive Maintenance	1,621,455			1,621,455
Local Road				
Preservation/Structural Improvements		\$ 315,677		315,677
Routine and Preventive Maintenance		1,499,706		1,499,706
Equipment Expense--Net (Per Exhibit H)	63,872	82,005	\$ 12,341	158,218
Administrative Expense--Net (Per Exhibit H)	171,431	161,287		332,718
Capital Outlay--Net (Per Exhibit H)			(398,452)	(398,452)
Debt Principal Payments			173,600	173,600
Interest Expense			22,420	22,420
Total Expenditures	<u>\$2,164,852</u>	<u>\$ 2,058,675</u>	<u>\$ (190,091)</u>	<u>\$4,033,436</u>



JENNIFER M. GRANHOLM
GOVERNOR

STATE OF MICHIGAN
DEPARTMENT OF TREASURY
LANSING

ROBERT J. KLEINE
STATE TREASURER

November 2, 2006

Kalkaska County Road Commission
Board of County Road Commissioners
1049 Island Lake Road
Kalkaska, Michigan 49646

RE: Report on Internal Control Over Financial Reporting and Compliance and
Other Matters Based on an Audit of the Financial Statements Performed in
Accordance With Government Auditing Standards

Dear Board Members:

We have audited the basic financial statements of the Kalkaska County Road Commission, a component unit of Kalkaska County, as of and for the year ended December 31, 2005, and have issued our report thereon dated November 2, 2006. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting--In planning and performing our audit, we considered Kalkaska County Road Commission's internal control over financial reporting in order to determine our auditing procedures for the purpose of expressing an opinion on the financial statements and not to provide an opinion on the internal control over financial reporting. However, we noted certain matters involving the internal control over financial reporting and its operations that we consider to be reportable conditions. Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation in the internal control over financial reporting that, in our judgment, could adversely affect the Kalkaska County Road Commission's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements. Reportable conditions are described in the accompanying comments and recommendations as items 05-01 through 05-06.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions. Our consideration of the internal control over financial reporting would not necessarily disclose all matters in the internal control that might be reportable conditions and, accordingly, would not necessarily disclose all reportable conditions that are also considered to

be material weaknesses. We consider reportable conditions identified above as 05-01 and 05-02 to be material weaknesses.

Compliance and Other Matters--As part of obtaining reasonable assurance about whether Kalkaska County Road Commission's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit and, accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance that are required to be reported under Government Auditing Standards, however, we did note other instances of noncompliance and other matters described in the accompanying comments and recommendations as items 05-07 through 05-14.

This report is intended solely for the information and use of the management, the Road Commission Board of Commissioners, Federal awarding agencies, and State and pass-through entities and is not intended to be and should not be used by anyone other than these specified parties. However, this report is a matter of public record and its distribution is not limited.



Cary Jay Vaughn, CPA, CGFM
Audit Manager
Local Audit and Finance Division

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL STRUCTURE WEAKNESSES

The following are detailed descriptions and recommendations of the reportable conditions that we consider to be material weaknesses involving internal controls.

A material weakness is a condition in which the design or operation of one or more of the internal control components does not reduce to a relatively low level the risk that misstatements in amounts that would be material in relation to the financial statements being audited may occur and not be detected within a timely period by employees in the normal course of performing their assigned functions.

Reconcilement of Inventory Records

Finding 05-01

Condition: The general ledger and inventory in stock reports for the parts inventories were not reconciled and there were no perpetual inventory records maintained for most of the road materials (other than signs).

Criteria: The Michigan Department of Treasury Uniform Accounting Procedures Manual for County Road Commissions requires perpetual inventory records to be in balance with general ledger accounts 109 - Road Materials Inventory and 110 - Equipment Parts and Materials Inventory.

Recommendation: We recommend that the inventory accounts be reconciled monthly (or at least annually) and adjusted, if necessary, to cause the general ledger inventory control account balances to agree with the inventory status report and manual inventory records.

Management's Response: The inventory adjustments for 2005 were not posted to the general ledger, but were posted to the perpetual inventory records which resulted in the discrepancy. We will verify it on a monthly basis.

Physical Inventory of Road Materials

Finding 05-02

Condition: Road Commission personnel did not take a physical inventory of road materials (except signs) during 2005.

Criteria: The Michigan Department of Treasury Uniform Accounting Procedures Manual for County Road Commissions requires perpetual inventory records to be in balance with general ledger accounts 109 - Road Materials Inventory and 110 - Equipment Parts and Materials Inventory. A physical count of all inventory items must be taken at least annually. Any differences between the physical counts and perpetual inventory records should be investigated and explained. Inventory adjustments to the 109 account must be recorded in account 514-791 - Distributive Expense - Other and inventory adjustments to the 110 account must be recorded in account 511-791 - Equipment Expense - Indirect. The perpetual inventory records must also be adjusted to agree with quantities determined by the physical inventory counts.

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

MATERIAL INTERNAL CONTROL STRUCTURE WEAKNESSES (Continued)

Recommendation: We recommend that a physical inventory of all materials and parts be taken annually and perpetual inventory records be adjusted to quantities determined by the physical counts. Inventory adjustments determined by the physical counts must be made to the Equipment Expense - Indirect and Distributive Expense - Other accounts before fiscal year end.

Management's Response: The road materials had been inventoried annually in the past. However, during 2005, with the departure of the past manager, this process was overlooked. We have performed the 2006 physical inventory and will continue to perform annual physical inventories on road materials.

REPORTABLE CONDITIONS

Reportable conditions involve matters coming to our attention relating to significant deficiencies in the design or operation in the internal control over financial reporting that, in our judgment, could adversely affect the Kalkaska County Road Commission's ability to initiate, record, process, and report financial data consistent with the assertions of management in the financial statements.

Capital Assets-Capitalization Policy

Finding 05-03

Condition: The Road Commission does not have a formal capital assets threshold policy.

Criteria: The Michigan Department of Treasury suggests that the board of county road commissioners establish, by resolution or policy, a capitalization policy that specifies a dollar value or capitalization threshold that assets must exceed if they are to be capitalized. **Equipment with a Schedule C equipment rental rate must be classed in the capital assets control regardless of value.** The Road Commission must, of course, maintain adequate control over lower cost assets that have not been capitalized.

Recommendation: We recommend that the Road Commission adopt a capitalization policy that establishes criteria for capitalization including a capitalization threshold. A sample copy of the policy may be found on page 287 of the 2006 Accounting Procedures Manual for County Road Commissions.

Management's Response: The Kalkaska County Road Commission has now adopted a capitalization policy that establishes criteria for capitalization including a capitalization threshold.

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

REPORTABLE CONDITIONS (Continued)

Capital Assets--Reporting Non-Depreciable Infrastructure

Finding 05-04

Condition: The Road Commission has not separated the nondepreciable portion of the road infrastructure and has reported all road related costs as depreciable.

Criteria: The Accounting Procedures Manual for Road Commission states: "Purchase of land for roadway or right-of-way will be set up in a separate capital asset account, by year, which will not be depreciated. This information MUST be included from 1980 to present. Any purchase of land or right-of-way prior to 1980, for which the road commission has documentation of purchase price, should be included.

Land improvements (including excavation, ditching, grading, tree removal, and subgrade preparation) are to be recorded as capital assets by year, and will not be depreciated. Use 1999 or 2000 project data for your road commission to arrive at a percentage of projects normally included as land improvements and apply this percentage to all years prior to current year. Use actual data from date of implementation forward."

Recommendation: We recommend that the Road Commission use the most current data available to determine the portion of nondepreciable expenses of the construction and preservation/structural improvements and apply that percentage to the prior year's infrastructure. Nondepreciable costs include excavation, ditching, grading, tree removal and subgrade preparation. The purchase of land for roadway or right-of-way should be setup in a separate capital asset account and will not be depreciated. Initial installation of guard rail will be included with the project cost.

Management's Response: The Kalkaska County Road Commission shall use the most current data available to determine the portion of nondepreciable expenses of the construction and preservation/structural improvements and apply that percentage to the prior year's infrastructure. We shall research and set up a separate capital asset account for land purchased for roadway or right-of-way.

Capital Assets--Fully Depreciated Roads

Finding 05-05

Condition: We found that the Road Commission has not removed fully depreciated roads for the infrastructure assets.

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

REPORTABLE CONDITIONS (Continued)

Criteria: The Accounting Procedures Manual for Road Commission states: “All depreciated road commission capital assets are to be removed from the capital assets control and depreciation control at the time the individually recorded capital asset item has been fully depreciated. For example, the 1980 gravel roads in the capital asset control would be removed from the capital asset account along with the respective depreciation accounts in 1989, as they would be fully depreciated; however, all remaining 1980 recorded infrastructure assets would remain as they would not be fully depreciated. Fully depreciated bridges and traffic signals are to be removed from the capital asset control only when they have been replaced or removed from the road system.”

Recommendation: We recommend that the Road Commission remove fully depreciated roads as recommended in the accounting manual. Because these roads are not specifically identified, it is difficult to determine exactly which road, or section of road, has been improved/resurfaced. Therefore, when it is fully depreciated, it should be removed. Otherwise this number will grow to large proportions.

Management’s Response: The Kalkaska County Road Commission shall identify roads, or sections of roads that have been improved or resurfaced so that when it is fully depreciated, it is removed from the capital assets control account.

Vendor/Payroll Bank Reconciliation

Finding 05-06

Condition: The Road Commission is not performing the bank reconciliation for the vendor/payroll account on a timely basis. At November 1, 2006, the December 31, 2005 vendor/payroll bank account had not been reconciled.

Criteria: The Standards of Internal Control for the Federal Government (which is a good general standard for all types of municipalities) states that reconciliations must be performed as part of internal controls. This is further enhanced by the Uniform Accounting Procedures Manual which states that “all bank accounts must be reconciled to the local unit accounting records monthly and should then be reviewed by the appropriate supervisory personnel.” This also provides for timely detection of errors or irregularities.

Recommendation: We recommend that all bank accounts be reconciled on a timely basis with the accounting records. The activity in the bank should reconcile to the general ledger and provide a method to correct errors in posting.

Management’s Response: The unreconciled balance was less than \$200 in 2005 and is currently the same amount. We are now going to utilize the computer bank reconciliation program to reconcile this account.

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS

Our examination revealed the following instances of noncompliance with State statutes and regulations.

General Appropriation Act

Finding 05-07

Condition: The Road Commission did not hold a public hearing before passing its 2005 budget. The 2005 budget was not adopted until August 24, 2005 and the 2006 budget was not adopted until January 11, 2006. At the start of both years, the Road Commission was incurring expenditures in excess of the budget (because there was no budget adopted). The budgets that were adopted by the board were not balanced budgets and did not contain beginning or ending fund balances. The adopted budgets had expenditures exceeding revenues.

During the calendar year ended December 31, 2005, expenditures were incurred in excess of amounts appropriated in the amended budget in total and for the following activities:

<u>Activity</u>	<u>Budget</u>	<u>Actual</u>	<u>Variance</u>
Primary Road Maintenance	\$ 1,200,000	\$ 1,621,455	\$ (421,455)
Local Road Maintenance	1,400,000	1,499,706	(99,706)
Net Equipment Expense	(84,000)	158,218	(242,218)
Principal	165,000	173,600	(8,600)

Criteria: MCL 141.434 Section 14 states:

- (3) The chief administrative officer shall transmit the recommended budget to the legislative body according to an appropriate time schedule developed by the local unit. The schedule shall allow adequate time for review and adoption by the legislative body before commencement of the budget year. The recommended budget, when transmitted by the chief administrative officer, shall be accompanied by a suggested general appropriations act to implement the budget. The suggested general appropriations act shall fulfill the requirements of section 16.
- (4) The recommended budget transmitted by the chief administrative officer shall be considered by the legislative body.
- (5) The chief administrative officer shall furnish the legislative body information the legislative body requires for proper consideration of the recommended budget. **Before final passage of a general appropriations act by the legislative body, a public hearing shall be held. (emphasis added)**

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

MCL 141.435 Section 15 states:

- (1) The recommended budget shall include at least the following:
 - (a) Expenditure data for the most recently completed fiscal year and estimated expenditures for the current fiscal year.
 - (b) An estimate of the expenditure amounts required to conduct, in the ensuing fiscal year, the government of the local unit, including its budgetary centers.
 - (c) Revenue data for the most recently completed fiscal year and estimated revenues for the current fiscal year.
 - (d) An estimate of the revenues, by source of revenue, to be raised or received by the local unit in the ensuing fiscal year.
 - (e) The amount of surplus or deficit that has accumulated from prior fiscal years, together with an estimate of the amount of surplus or deficit expected in the current fiscal year.
 - (f) An estimate of the amounts needed for deficiency, contingent, or emergency purposes.
 - (g) Other data relating to fiscal conditions that the chief administrative officer considers to be useful in considering the financial needs of the local unit.
- (2) The total estimated expenditures, including an accrued deficit, in the budget shall not exceed the total estimated revenues.

MCL 141.436 Section 16 states:

- (1) Unless another method for adopting a budget is provided by a charter provision in effect on April 1, 1980, the legislative body of each local unit shall pass a general appropriations act for all funds except trust or agency, internal service, enterprise, debt service or capital project funds for which the legislative body may pass a special appropriation act.
- (3) The general appropriations act shall set forth the amounts appropriated by the legislative body to defray the expenditures and meet the liabilities of the local unit for the ensuing fiscal year, and shall set forth a statement of estimated revenues, by source, in each fund for the ensuing fiscal year.
- (4) The general appropriations act shall be consistent with the uniform chart of accounts prescribed by the state treasurer.

MCL 141.437 Section 17(1) states: "Except as otherwise provided in section 19, a deviation from the original general appropriations act shall not be made without amending the general appropriations act. Subject to section 16(2), the legislative body of the local unit shall amend the general appropriations act as soon as it becomes apparent that a deviation from the original general appropriations act is necessary and the amount of the deviation can be determined. An amendment shall indicate each intended alteration in the purpose of each appropriation item affected by the amendment. The legislative body may require that the chief administrative officer or fiscal officer provide it with periodic reports on the financial condition of the local unit."

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

MCL 141.438 Section 18 states:

- (1) A member of the legislative body, chief administrative officer, administrative officer, or employee of the local unit shall not create a debt or incur a financial obligation on behalf of the local unit unless the debt or obligation is permitted by law.”
- (3) Except as otherwise provided in section 19, an administrative officer of the local unit shall not incur expenditures against an appropriation account in excess of the amount appropriated by the legislative body. The chief administrative officer, an administrative officer, or an employee of the local unit shall not apply or divert money of the local unit for purposes inconsistent with those specified in the appropriations of the legislative body.”

MCL 141.439 Section 19 (1) states:

- (1) A member of the legislative body, the chief administrative officer, an administrative officer, or an employee of a local unit shall not authorize or participate in the expenditure of funds except as authorized by a general appropriations act. An expenditure shall not be incurred except in pursuance of the authority and appropriations of the legislative body of the local unit.
- (2) The legislative body in a general appropriations act may permit the chief administrative officer to execute transfers within limits stated in the act between appropriations without the prior approval of the legislative body.

Directive: We direct the Road Commission to comply with the above statutory budgeting requirements and to schedule and hold hearings as required by law. The board of commissioners should take appropriate action to ensure that the budget is adopted in a timely manner as required by law and expenditures do not exceed appropriations.

Management's Response: The Kalkaska County Road Commission shall take all steps necessary to comply with all statutory budgeting requirements, and schedule and hold hearings as required by law. Further, it is the intent of this Road Commission to take whatever action is necessary to ensure that the budget is adopted in a timely manner and that expenditures do not exceed appropriations as required by law.

Borrowing for Road Purposes

Finding 05-08

Condition: The Road Commission entered into a verbal agreement with Elmer's (a construction company) to have Elmer's perform the Blue Lake Road Project to be repaid in monthly installments at a 9% compound interest rate. On September 14, 2005, the following excerpt was taken from the Kalkaska County Road Commission's minutes:

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

NONCOMPLIANCE WITH STATE STATUTES AND REGULATIONS (Continued)

“Blue Lake Road Project: Mr. Woodhams spoke with Elmer’s regarding the completion of the project. Elmer’s proposed the payment of \$60,000 upon completion of the project (amount equal to Township share) and \$20,000 per month until total is paid. Board was satisfied with proposal.”

Criteria: According to Public Act 143 of 1943, Borrowing for Road Purposes, MCL 141.251 states: “Boards of county road commissioners are authorized and empowered, **upon the adoption of a resolution**, to borrow money, the sum of which shall not exceed the amount previously authorized by their respective county board of commissioners, in anticipation of and to pledge for the payment of the borrowed money, future revenues derived from state collected taxes returned to the county for the county road purposes pursuant to law and to issue notes for the purpose of purchasing road machinery or equipment, or improvement of county highways, or for other general county road purposes.” (emphasis added)

Direction: We direct the Road Commission to comply with the above statute.

Management’s Response: The Kalkaska County Road Commission will no longer borrow money for road purposes. It is our intent to create a policy against borrowing money for road purposes to ensure this does not happen in the future.

Granting Credit of the Road Commission

Finding 05-09

Condition: At December 31, 2005, there was a negative balance of \$2,886.37 in the Retiree Escrow payable account. The negative amount was the result of retirees not paying for their premiums timely, resulting in the Road Commission paying for their insurance in advance of payment. There were 7 out of 18 retirees that did not make their premium payment timely and an additional 7 retirees that had balances (debit and credit) of \$103 or less.

Criteria: The use of public money for a private purpose without compensation has been deemed by the Michigan Supreme Court to be a violation of the State Constitution, Article 9, Section 18, "The credit of the state shall not be granted to, nor in aid of any person, association or corporation, public or private, except as authorized in this constitution." For example, in *Alan v Wayne County*, 388 Mich 210 (1972), the Michigan Supreme Court ruled that a unit of government may not give away public property of value without fair compensation. The Supreme Court in the decision of *Black Marsh Drainage District v. Rowe* [1958], 350 Mich. 470, held that this provision applies to all political subdivisions of the state.

Direction: We direct that the Road Commission make every effort to receive insurance premiums prior to paying for insurance.

Management’s Response: This account has now been cleared, with the exception on one retiree who owes one month. We have sent a letter to all retirees and retirees’ spouses requesting prepayment of insurance premiums.

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

OTHER MATTERS

Financial Condition

Finding 05-10

Condition: During the year ending December 31, 2005, the Road Commission's fund balance decreased by \$336,638. The biggest contributor to decrease was the over spending in the Local Road Fund in the amount of \$534,591. The following is a summary of the expenditures (over)/under revenues and the ending fund balance since 2003:

Year	Expenditures (Over)/Under Revenues				Fund Balance			
	Primary	Local	County	Total	Primary	Local	County	Total
2003	\$186,995	\$(337,352)	\$291,542	\$ 141,185	\$76,375	\$ 45,849	\$832,506	\$ 954,730
2004	223,800	(388,906)	74,751	(90,355)	76,375	45,849	742,151	864,375
2005	(53,178)	(534,591)	251,131	(336,638)	23,197		504,539	527,736

Recommendation: We strongly recommend that the Road Commission monitor its expenditures over its local road activities. If the Road Commission continues to operate in the same manner as it did in 2005, it will completely drain the fund balance by mid 2007.

Management's Response: In 2005, the Kalkaska County Road Commission was overly aggressive in local road maintenance. In 2006, the Kalkaska County Road Commissioners realized the past boards' over aggressiveness and adjusted its local road maintenance to remain within budget. We plan to fully monitor the expenditures over local road activities to ensure future budget compliance.

Investment Policy

Finding 05-11

Condition: The Road Commission has not assessed investment risks as required by GASB Statement No. 40.

Criteria: The Governmental Accounting Standards Board adopted GASB Statement No. 40, "Deposit and Investment Risk Disclosures," an amendment of GASB Statement No. 3. The provisions of GASB Statement No. 40 are effective for financial statements for periods beginning after June 15, 2004.

The GASB Statement No. 40 summary states in part: "The deposits and investments of state and local governments are exposed to risks that have the potential to result in losses. This statement addresses common deposit and investment risks related to credit risk, concentration of credit risk, interest rate risk, and foreign currency risk. As an element of interest rate risk, this statement requires certain disclosures of investments that have fair values that are highly sensitive to changes in interest rates. Deposit and investment policies related to the risks identified in this statement also should be disclosed."

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

OTHER MATTERS (Continued)

Recommendation: We recommend that the Road Commission contact the county treasurer's office and formulate an updated investment policy that includes the requirements for GASB Statement No. 40 and have the board adopt the new investment policy.

Management's Response: We are contacting the county treasurer to get a copy of their investment policy.

Imprest Cash--Prescription Reimbursement

Finding 05-12

Condition: In October 2005, there was \$3,000 established in an imprest cash account for the purpose of reimbursing employee's prescriptions. This cash is treated in the same manner as petty cash. However the cash is not recorded in the general ledger, but there is a cash log that is reconciled to the cash on hand. At December 31, 2005, the balance was approximately \$2,300 and at November 1, 2006 the balance was approximately \$200.

Criteria: According to the Uniform Accounting Procedures Manual, the road commission's board should adopt a policy statement or resolution regarding imprest cash and establish a dollar amount to maintain the imprest cash for prescription reimbursements. The amount posted as imprest cash in the general ledger of the road commission must agree with the board established amount and the county's records. The imprest balance on hand should then be reconciled to the established balance and reconciled timely.

Recommendation: We recommend that the Road Commission Board first establish a policy statement or resolution stating that the imprest cash account is to be used for the purpose of prescription reimbursement. The Road Commission should determine the amount based on the current history of reimbursements. Second, the Road Commission should adjust its general ledger to reflect the balance of the imprest cash and notify the county of the balance. Third, the Road Commission Board should establish reconciling procedures to verify the procedures for maintaining the imprest cash account balance.

Management's Response: We feel that an imprest cash amount should be established at \$500. The next time we write a check for the prescription reimbursements, we will establish a petty cash in the general ledger for \$500 and inform the county treasurer and county controller of this amount. The board will adopt a policy for the imprest cash usage and reconciling procedures.

KALKASKA COUNTY ROAD COMMISSION

COMMENTS AND RECOMMENDATIONS

OTHER MATTERS (Continued)

Commissioners Compensation

Finding 05-13

Condition: On December 14, 2004 (resolution Number 2004-27), the Kalkaska County Board of Commissioners reduced the compensation rate for the road commissioners to a monthly salary of \$350 plus \$25 for ½ day meetings and \$50 for full day meetings with no other benefits. The Road Commission has adopted a two monthly meeting schedule, one morning and one evening. The change in the compensation was projected to be \$4,850 per year, per commissioner, based on the meeting schedule and would save 22-65%, thus making those funds available for other expenditures. The total salaries paid out was \$16,125 with an additional cost of \$582 in mileage during 2005. In 2006, the salaries paid were \$15,275 and \$386 for mileage.

Criteria: Travel to and from meetings (at the office) is not authorized unless part of the original compensation package. According to IRS rules and regulations, all compensation is taxable and shall be reported as wages.

Recommendation: We recommend that the Road Commission include the travel compensation for in-house meetings as part of the payroll system, **if it was specifically included in the compensation plan approved by the County Board of Commissioners.** Otherwise it should not be reimbursed.

Management's Response: We are contacting the county clerk's office for an updated compensation plan which includes the mileage reimbursement.